

## Message Text

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ACTION ARA-10

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TO SECSTATE WASHDC 3937

C O N F I D E N T I A L PANAMA 2920

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SUBJ: PROPOSAL TO CREATE A NATIONAL FINANCE CORPORATION

SUMMARY. THE GOP WILL SOON ESTABLISH A NATIONAL FINANCE CORPORATION (NFC) TO HELP INJECT NEW VIGOR INTO PANAMA'S PRIVATE SECTOR. A DRAFT BILL TO ESTABLISH THE CORPORATION HAS BEEN PREPARED BY THE NATIONAL LEGISLATIVE COMMISSION. CONSULTATIONS ARE BEING CARRIED OUT CONCERNING THE DRAFT LEGISLATION FOR THE CORPORATION WITH A LIMITED NUMBER OF BUSINESSMEN WHO ARE FRIENDLY TO THE GOVERNMENT. END SUMMARY.

1. A PROMINENT PANAMANIAN BUSINESSMAN GAVE THE EMBASSY IN CONFIDENCE A COPY OF DRAFT LEGISLATION WHICH WOULD ESTABLISH A NATIONAL FINANCE CORPORATION. THE DOCUMENT HAD BEEN GIVEN TO HIM BY THE MEMBER OF THE LEGISLATIVE COMMISSION RESPONSIBLE FOR CONDUCTING CONSULTATIONS CONCERNING THE NEW ENTITY. THE BUSINESSMAN SAID THAT PURPOSE BEHIND THE CORPORATION WAS TO STIMULATE PRIVATE INVESTMENT AND INCREASE PRIVATE SECTOR CONFIDENCE IN THE ECONOMY AND THE GOVERNMENT. HE ALSO SAID CAPITAL HAS BEEN LEAVING PANAMA AND THE PRIVATE SECTOR HAD NOT BEEN REINVESTING PROFITS AT THE LEVEL NECESSARY TO SUSTAIN A VIGOROUS ECONOMY. A PROLONGED DOWN-TURN IN THE ECONOMY COULD MAKE TORRIJOS VULNERABLE TO HIS ENEMIES, PRIMARILY EX-CONFIDENTIAL

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LIBERAL PARTY MEMBERS, ARNULFISTAS AND CHRISTIAN DEMOCRATS,

WHO WOULD EXPLOIT ANY ECONOMIC DOWN-TURN FOR POLITICAL PURPOSES. SOME MEANS WAS NEEDED TO KEEP THIS NUCLEUS OF OPPOSITION FROM GAINING ADHERENTS. THE CURRENT PANAMANIAN POLICY OF EXPANDING PANAMA'S ROLE AS A REGIONAL FINANCE CENTER PRECLUDES IMPOSITION OF EXCHANGE CONTROLS TO STOP CAPITAL FLIGHT. THEREFORE, MEANS HAD TO BE FOUND TO BOLSTER INVESTOR CONFIDENCE AND PUMP NEW LIFE INTO THE ECONOMY. THE PROPOSED CORPORATION IS TO BE PART OF THIS EFFORT.

2. ACCORDING TO THE DRAFT LAW, THE NFC WOULD BE AN AUTONOMOUS ENTITY SUBJECT TO THE ECONOMIC POLICY OF THE GOP AND AUDIT BY THE COMPTROLLER-GENERAL. IT WOULD STIMULATE THE ESTABLISHMENT OR DEVELOPMENT OF PRIVATE, PUBLIC AND MIXED ENTERPRISES IN AREAS OF PRIORITY. TO DO THIS IT COULD ACQUIRE AND TRADE STOCK IN ENTERPRISES WHICH HAVE POOR ACCESS TO A TRADITIONAL CAPITAL MARKETS. IT COULD RAISE MONEY BY ISSUING AND PLACING BONDS DOMESTICALLY AS WELL AS ABROAD AND BY CONTRACTING LOANS. IT WOULD GUARANTEE THE LIABILITIES AND ACT AS AN INTERMEDIARY OR TRUSTEE FOR ENTERPRISES IN THE SECURITIES MARKET. IT ALSO WOULD PROVIDE TECHNICAL ASSISTANCE TO FIRMS. ON A BROADER LEVEL, IT WOULD PARTICIPATE WITH OTHER GOP AGENCIES IN INDUSTRIAL COORDINATION AND PLANNING AND WOULD ORIENT INVESTORS DOMESTIC AND FOREIGN- TOWARD ACTIVITIES IN SECTORS AND AREAS WHICH HAVE PRIORITY IN NATIONAL DEVELOPMENT.

3. FINANCIAL RESOURCES FOR THE CORPORATION WOULD COME FROM IMPORT TAXES, SUBSIDIES FROM THE GOP, INCOME FROM BONDS, ASSETS, "RESOURCES" OF STATE ENTERPRISES AND OTHER SOURCES, AS PROVIDED BY LAW.

4. THE NFC WILL BE ADMINISTERED BY AN EXECUTIVE COMMITTEE THROUGH A GENERAL MANAGER AND WILL BE COMPOSED OF THE NECESSARY ADMINISTRATIVE UNITS. THE EXECUTIVE COMMITTEE WILL CONSIST OF THE MINISTERS OF COMMERCE AND INDUSTRIES, AGRICULTURAL DEVELOPMENT, PLANNING AND ECONOMIC POLICY, THE GENERAL MANAGER OF THE NATIONAL BANK, AND A PRIVATE CITIZEN DESIGNATED BY THE EXECUTIVE. THE GENERAL MANAGER WILL BE IN CHARGE OF EXECUTING THE POLICIES ESTABLISHED BY THE EXECUTIVE COMMITTEE AND APPROPRIATE LAWS AND INTERNAL REGULATIONS OF THE CORPORATION.

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5. COMMENT. THE PROJECTED NFC APPEARS TO BE PART OF THE PRODUCTIVITY AND ANTI-INFLATION PROGRAM ANNOUNCED IN THE BOQUETE DECLARATION LAST OCTOBER WHICH ENVISIONED AN INDUSTRIAL DEVELOPMENT BANK. PROPERLY ADMINISTERED, THE NFC COULD INFUSE NEW CAPITAL INTO AILING INDUSTRIES AND WOULD ASSIST PRIVATE ENTERPRISE TO ENTER INTO AREAS OF ENDEAVOR WHICH ARE HIGH RISK BUT IMPORTANT FOR THE COUNTRY'S NATIONAL DEVELOPMENT. A PRINCIPAL QUESTION IS WHETHER THE NATIONAL FINANCE CORPORATION

WILL BE ABLE TO OBTAIN SUFFICIENT RESOURCES - DOMESTIC AND FOREIGN - TO HAVE THE DESIRED IMPACT. ITS STATUS AS AN INDEPENDENT AUTONOMOUS GOVERNMENT ENTITY COULD MAKE IT SIMILAR TO THE AGRICULTURAL DEVELOPMENT BANK AND THE NATIONAL MORTGAGE BANK. IF IT WERE TO BE FINANCED AT A COMPARABLE SCALE, E.G. OVER \$20 MILLION ANNUALLY, IT COULD HAVE CONSIDERABLE IMPACT, ESPECIALLY IF ITS RESOURCES ARE CONCENTRATED IN SPECIFIC AREAS OF THE ECONOMY. WE HAVE BEEN INFORMED BY A RELIABLE SOURCE THAT PART OF ITS FINANCING WILL BE GENERATED BY VENEZUELA'S OIL FINANCING SCHEME. WE UNDERSTAND THAT THE NFC CHARTER IS PATTERNED AFTER THE NACIONAL FINANCIERA OF MEXICO.

6. THE CHARTER OF THE NFC IS BROAD ENOUGH SO THAT IT COULD BE USED AGGRESSIVELY TO EXPAND PUBLIC SECTOR PARTICIPATION IN COMMERCE AND INDUSTRY, IN ADDITION TO ITS ANNOUNCED GOAL OF PROVIDING STIMULUS FOR THE PRIVATE SECTOR. THE PRESENCE ON THE NFC'S EXECUTIVE COMMITTEE, HOWEVER, OF MEN WHO ARE PRIVATE ENTERPRISE-ORIENTED AND THE FACT THAT THE MAN WHO WILL SERVE AS ITS GENERAL MANAGER - JAIME ARIAS, JR. IS AN OLIGARCH, INDICATES TO US THAT THE GOP'S INTENT IS TO USE THE CORPORATION TO BOLSTER PRIVATE SECTOR CONFIDENCE AND INJECT NEW VIGOR INTO PANAMA'S ECONOMY RATHER THAN USE IT AS A MEANS OF MOVING TOWARD A STATE-CONTROLLED ECONOMY. NEVERTHELESS, MANY PEOPLE IN THE PRIVATE SECTOR MAY BECOME UNEASY WHEN THE NFC IS OFFICIALLY ESTABLISHED, WHICH REPORTEDLY WILL BE BEFORE JUNE. THE CONSULTATIONS NOW UNDERWAY SHOULD HELP REDUCE OBJECTIONS TO THE PROPOSAL.

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